

## **OVERVIEW AND BACKGROUND OF RATE FILING**

This filing is for Baptist Health Plan's (BHP) 2017 Individual non-grandfathered single risk pool block of business. The initially submitted rate filing requested an average rate increase of 26.7%. During the course of the review, a couple of errors were discovered which had a rating impact on the originally submitted rates. After the corrections, the final requested average rate increase is 27.9%.

The Company was new to the individual ACA market in 2016 introducing PPO and HMO plans both on and off the exchange. The Company is discontinuing all of its PPO plans in 2017 except one bronze HSA plan, which will now only be available off exchange. The Company is renewing the 10 HMO plans and will continue offer these both on and off-exchange. The Company does not have a statewide presence and its coverage is limited to certain counties in Area's 1, 2, 3, 5 & 8. The majority of the anticipated coverage is in area's 3 & 5.

BHP projects its 2017 membership to be 131,888 member months, up from the 11,736 member months assumed in the 2016 rate filing. As of March 2016, the Company had 7,432 members, which is significantly larger than the Company originally anticipated in the 2016 rate filing. During the 2016 rate review, we anticipated that the Company's enrollment projections were most likely understated due to Company's proposed rate levels compared to the market. The Company's projected 2017 enrollment is developed starting with its current membership by plan, as of March 2016. The Company provided a detailed demonstration of how it developed the projected 2017 enrollment, which we reviewed for reasonableness.

BHP's Individual rates are set for a 1/1/17 effective date. The company has stated that the 10 Essential Health Benefits (EHB) are included in the rates and no material additional benefits in excess of EHB are included in the plan designs.

The anticipated pricing loss ratio is 79.6% and its federally adjusted loss ratio is 86.4%, which exceeds the required MLR of 80%.

## **SUMMARY OF RATE DEVELOPMENT, ASSUMPTIONS, AND CHANGES**

BHP's individual product line was introduced in 2016 and was considered too new for its own experience to be credible, therefore the Company used its 2015 NGF small group (2-49 employees) experience with appropriate adjustment to develop the manual rate for the individual market.

After implementation of ACA reforms, we agree that use of a Company's small group experience as a basis to develop a manual rate for the individual market is appropriate for Companies with no or limited Individual experience of their own. The small group experience was adjusted for a number of factors to accurately reflect the projected Individual market. The Company provided a complete breakdown of all adjustments, including the significant rate drivers listed below.

- Starting base experience
- Changes in benefit design
- Medical utilization and unit cost trends,
- Elimination of the federal reinsurance program
- Risk adjustment
- Tobacco usages
- Taxes, fees and other Non-Benefit Expenses (NBE)

As noted above, the Company used its 2015 NGF small group (2-49 employees) experience (\$317.68 PMPM) as the starting point to develop the 2017 individual rate manual. The starting allowed costs used in the development of the previous year's rate manual was \$297.91 PMPM, representing a 6.6% increase. This increase in starting experience appears reasonable and consistent with the Company's trend assumption. No addition questions were requested regarding the base experience

A rating trend of 6.0% was assumed for calendar year 2016 and 7.0% for calendar year 2017. This results in an approximate 6.5% annualized trend rate to project the base experience from 2015 to 2017. The average annual trend assumed in the development of last year's rate filing was 7.8%. The Company's medical claims trends are based on a review of historical experience, as well as using Milliman's guidelines for medical trends from the HCGs. The pharmacy trends take into account anticipated increases from specialty drugs. The trend support exhibit provided 5 years of the Company's Group Commercial trend experience broken down by medical category for both unit cost and utilization. Actuarial judgment was used to project each cost and utilization component of the trend to reflect the cost impacts of several provider and smooth recent fluctuations. Some of the trend adjustments by medical category deviated from what the historical experience showed, however the overall aggregate trend assumption of 6.5%% is reasonable based on the historical experience and industry trend averages.

The Company continued the 10 HMO plans that it introduced in 2016, all of which will be on the narrow network Baptist Health Community Care Network. This is different than the broad network that the underlying base experience uses and therefore required an adjustment factor of .854. The Company provided a file showing the development of this provider contract adjustment factor, which it requested we keep confidential. We reviewed the development and it appears reasonable and consistent with last year's assumption.

Another major driver of the proposed rate increase is a change in the projected risk adjustment assumption. The Company assumed it would be market average in last year's rate development and therefore assumed no risk transfer payment. For 2017, the Company has assumed it will be a net risk adjustment payer, resulting in a rating impact of 5.8% increase. In last year's rate filing, we questioned the Company's assumption that its population would be market average, given it had a significant number of HSA plans being offered which tend to attract healthier members. The Company decided not to change the assumption because it said it did not have sufficient support however it now believes this adjustment is necessary for 2017.

The methodology used develop the proposed risk adjustment assumption is similar to what the Company used to develop the risk adjustment payments for its year end 2015 financials, except it has applied a coding improvement factor it anticipates achieving for 2017. The coding improvement assumption is based on BHP's introduction of its risk score optimization efforts directed by its consultants Evolent, which has had considerable experience assisting other carriers achieve the desired results. The Company provided reasonable qualitative and some empirical evidence to support the Company's assumptions. The effect of using the coding improvement factor results in a lower rate increase than it would have without the use of the factor. After discussions with the Company's consultants along with the RBC scenario testing we requested (mentioned below), I have achieved a comfort level that the assumption is not too aggressive and now consider the risk adjustment assumption reasonable. This assumption should be monitored closely moving forward but I think it's appropriate for the current rate filing based on the support provided.

#### **DESCRIPTION OF FILING REVIEW PROCESS WITH INSURER**

The submitted filing was reviewed and subsequent questions requesting additional information was sent to the insurer. Rate tables, experience, and detailed data and explanations supporting the filing were requested and provided by the carrier. The company appears to have provided supporting documentation for their assumptions although given the wide range of possible scenarios and magnitude, complexity of ACA provisions, and uncertainty of actual market purchaser characteristics, it is not unlikely that results will vary from the company's assumptions.